

CalHFA has responded to all questions received on or before November 14, 2011 (due date of all RFP questions).

As of November 21, 2011, the response to question #21 has been corrected to include references to Notes 13 and 14 of the California Housing Finance Fund. Please see the attached document. Thank you.

General questions:

- 1 Where is the fieldwork performed- Sacramento or Los Angeles?
  - The fieldwork is performed in Sacramento
- 2 What fees did D&T charge for each audit?
  - Since pricing is a component of the RFP evaluation criteria, CalHFA chooses not to provide a response to this question.
- 3 Why are you going out for proposal – routine RFP process, dissatisfaction with predecessor auditor, or fees?
  - Routine RFP Process
- 4 What is the process for revising the contract if there is language that our firm takes issue with? See questions 5-16 for contract terms that we would like changed at this time.
  - Respondents should not expect the terms of the contract to be negotiable. However, some revisions to the terms of the contract have been made in response to these questions.
- 5 Section 1.18 of the RFP The completion of this Form implies an independence violation. An independent auditor should not be completing this Form. Can CalHFA remove this requirement based on the FPPC's *Scott Maze* Advice Letter, No. I-95-296 (October 16, 1995), which finds that Form 700 is inappropriate for an audit engagement? Section 3.7 has a similar reference.
  - Yes, it has been removed from Sections 1.18 and 3.7. Please see the revised RFP on the website.
- 6 Section 3.7 fourth bullet, can the phrase "except as permitted by law, legal process, or applicable professional standards" be added to the end of that bullet. As worded, this creates an issue for CPA firms that participate in peer review.
  - Yes, it has been added to Section 3.7
- 7 Why is page 32 included in Appendix 5? These terms are all included largely in the contract terms on the following pages. There does not appear to be a reason for the repetition.
  - The State of California Standard Agreement Form STD 2 is part of CalHFA's procurement process.

8 Page 40 under item 4b. We would like the following paragraph inserted:

“The Agency acknowledges that Contractor’s policy is to bill clients the amount incurred at the time the good or service is purchased. Subsequent volume rebates or other incentive payments from a vendor relating to such expenses will not be credited to such payments to the Agency.”

- No, the rates billed will be limited to State rates set forth in the regulation cited and will include a “not to exceed amount”.

9 Page 40 under item 4d. We would like the following words inserted at the end of the sentence “or where there is a violation of the applicable professional standards.

- The Agency chooses not to incorporate your request into the agreement.

10 Page 44 under item 12c. We would like to insert the following into the second sentence. Such termination for dissatisfaction may occur without cause, but where the cause for the default is capable of being cured, the Agency will provide the Contractor reasonable notice and opportunity to do so.

- The Agency chooses not to incorporate your request into the agreement.

11 Page 45 item 16. We would like to insert the following at the end of the sentence “, to the best of its knowledge.”

- The Agency chooses not to incorporate your request into the agreement.

12 Page 47 we would like item 20 removed if there is a separate confidentiality agreement. However if the Agency is unwilling to remove item 20 then we would like the following edits (items 13 and 14):

- The Agency chooses not to incorporate your request into the agreement.

13 Page 47 item 20 a. Please add at the end of the paragraph “Contractor is authorized to release all information related to this contract when required by law, legal process, or applicable professional standards. The Agency acknowledges that XXXXXXXX uses third party service providers within and without the United States to provide at XXXXXXXX direction administrative and clerical services to XXXXXXXX.

- See revision to item 20 a.

14 Page 47 item 20 b insert the word “negligent in the first sentence. “Should Contractor experience a negligent breach of the ....”

- The Agency chooses not to incorporate your request into the agreement.

- 15 Page 47 item 21. We would like the first sentence to be modified as follows: “Contractor agrees that Agency or its delegate shall have the right to review, obtain and copy all timekeeping and expense records (“Records”) pertaining.... In addition, in the second sentence, delete the phrase “books, records, accounts and other material” and replace with “Records”.
- See revision to item 21.
- 16 Page 48 end of item 22. We would like the following sentence added: “This section shall not be read to include the Contractor’s audit work papers, which remain the exclusive property of the Contractor.
- See revision to item 22.
- 17 1.6 Service Objectives: Could we obtain copies of the most recent management letter, required communications letter to the Audit Committee, CHFF opinion on the supplemental information, CHFF OMB A-133 Report, CHFF Financing Adjustment Factor (FAF) agreed-upon procedures review, CHFF agreed-upon procedures in connection with Proposition 1C Funds and CHFF agreed-upon procedures in connection with debt issuances reports?
- Please see the requirements for each of these items in Appendix 5 (Standard Form of Contract), Section 1 (Contractor’s Services). It is up to the Respondent to determine the appropriate procedures necessary to produce the reports and letters.
- 18 4.1.1 and 4.1.2 CHFF and CHLIF Overview
- a. Can you please provide an organization chart of the key individuals involved in providing information and assistance to the auditors?
    - See Exhibits A and B.
  - b. Is there an internal audit function? If so, do they provide assistance to the auditors?
    - No.
  - c. Has there been a BSA audit or other reports from external agencies in the last 2 years? Please provide a copy of the report and management’s response/corrective action plan to the findings.
    - Yes, the copies of the report can be found on the BSA website.
- 19 Appendix 2 – Confidentiality Statement – copies of some records are maintained as audit evidence in our audit workpapers. Does this create any issues for this statement?
- We understand that the audit workpapers are the exclusive property of the Contractor (see response to question #16).

20 Appendix 5 – Standard Form of Contract – Item 5b Staffing – We may use specialist in the review of loans, valuing of investments or valuation of derivatives. Is that permissible?

- Yes, we have deleted item 5b.

21 Are there any significant changes in the organization - its operations or financial position - that may impact the audit process? Any significant new litigation?

- See Notes 8 and 9 of the CHLIF audited financial statements
- See Notes 13 and 14 of the CHFF audited financial statements

#### California Housing Finance Fund

1. D&T issued October 14, 2011- is this timing consistent with history? When has fieldwork usually taken place? How many people and for how many weeks did D&T have individuals at the client site?

- Fieldwork in July (interim) usually takes a few weeks. The auditors return during the end of August to conduct the final procedures and are on-site for approximately five weeks. The number of staff assigned to the audit varies each year. We have had as few as four and as many as seven individuals on-site. The Agency has state, federal and statutory reporting deadlines to meet and has requested October 1<sup>st</sup> as the deadline for the issuance of the independent auditor's report on CHFF.

2. How is the fair value of the interest rate swaps valued? Are there experts utilized to help determine the value?

- As stated in Note 7, the fair values are reported by the Agency's dealer counterparties and are estimated using the zero-coupon method.

3. REO- what types of valuations are prepared to perform the fair value? Are these valuations prepared internally or by an independent third party?

- Broker's Price Opinions are obtained externally for each REO.

4. Investments overall- what is done to ensure the investments are not Other than temporarily impaired (OTTI Analysis)?

- The Agency formally monitors its investments quarterly and monitors investments daily, as certain situations arise.

## California Housing Loan Insurance Fund

1. D&T issued May 5, 2011- is this timing consistent with history, or is there a particular reason why they issued in May for a 12/31 year-end. When does fieldwork usually taken place? How many people and for how many weeks did D&T have individuals at the client site?
  - Fieldwork begins in March for approximately 4 weeks. We have had three to four individuals on-site. The Agency has state, federal and statutory reporting deadlines to meet and has requested April 30th as the deadline for the issuance of the independent auditor's report on CHLIF.
2. A substantial doubt of going concern opinion was issued for 2010- will a similar report be issued for 2011, or have operations improved? What was the driving force between the substantial doubt and what has changed in the current year if management no longer believes there is substantial doubt?
  - See Note 2 of the CY 2010 audited financial statements.
3. The Reserve for Unpaid Losses and Loss Adjustment Expenses is based upon delinquent balance on mortgage loans reported by lenders as of the close of the accounting period- are these based on the individual loan or is the assessment based on a pool of loans?
  - Individual loans are reported as delinquent to the Agency.
4. Reinsurance with Genworth- what work goes into the creditworthiness of Genworth?
  - The respondent should determine the extent of the work needed to test the creditworthiness of Genworth in order to arrive at their opinion. The description of the work to be performed should be mentioned in the RFP.
5. Pension Plans and Post Retirement Benefits- Note 7 mentions that an actuarial valuation was performed as of June 30, 2009. Has a more recent actuarial valuation been performed since June 30, 2009?
  - The information we obtained was the most updated information posted on the CalPERS website. Updates to the actuarial information are not expected to occur until December 2011.
6. Subsequent events- has there been any other downgrades in Moody's or Standard and Poor's after February 2, 2011 and February 3, 2011 on Genworth.
  - This information can be obtained by visiting Genworth's website.